

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 YEREVAN 001240

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [EPET](#) [AM](#)

SUBJECT: IRAN-ARMENIA PIPELINE: DEAL SIGNED ON FUTURE SWAP

Ref: A) YEREVAN 382 B) YEREVAN 698 C) YEREVAN 816 D) Yerevan

966

1. This cable is sensitive but unclassified. Please protect accordingly.

SUMMARY

2. (SBU) On May 19, 2004, Garnik Badalian, Head of the Iran desk at the Ministry of Foreign Affairs, briefed us about a recent agreement on the Iran - Armenia pipeline. Badalian said that on May 12, 2004, the Iranian Oil Minister signed an agreement with the Yerevan Thermal Power Plant to exchange Iranian gas for electricity produced from that gas. The agreement provides for the exchange of 36 billion cubic meters of gas over a period of 20 years, from 2007 to 2027, in consideration for 3 kWhs of electricity for each cubic meter of gas. End Summary.

CONTRACT ENVISAGES SWAP OF GAS FOR ELECTRICITY, NO SALE

3. (SBU) According to Badalian, the parties signed a 20-year agreement providing for the exchange of 36 billion cubic meters of gas with an option to extend five years (and another 9 million cubic meters of gas). The contract provides for the provision of gas beginning in 2007, and that construction should start within the next six months. But Badalian believed that due to financing issues and what he called the "Iranian habit" of delaying projects, actual construction would not start for at least 12 months. According to public statements by Deputy Minister of Finance Areg Galstyan (who has not proved to be a reliable source in the past), the contract includes no provisions for the sale of gas, but once built the pipeline could be used for gas sales from Iran or Turkmenistan.

NO ONWARD SALE ENVISAGED

4. (SBU) Badalian explained that the Armenian government (GOAM) has scotched the idea of onward sales to Georgia or Europe, due to lack of resources and investment. He said that the diameter of the planned pipeline would be about 700 millimeters, enough to satisfy Armenia's domestic gas needs but too little to justify building a continuation of the line for onward sales to the North. He added that such a pipeline would have to be at least 1000 to 1500 millimeters in diameter, and would cost nearly USD 4 million per kilometer to build in the hills of southern Armenia. An investment of this size, says Badalian, seems out of the question.

STILL NO MONEY TO BUILD

5. (SBU) Badalian emphasized that financing the pipeline is still a big problem and hoped that this could be partly solved through international investment. He explained that there was no specific line item in Iran's budget for this project, but he believed that the Iranian government has access to multiple funds that could easily pay for the pipeline. GAOM has still not identified any funds to pay for the construction. (Comment: We believe that it is possible that the GOAM may be able to pay for the pipeline construction in Armenia through proceeds from scheduled privatizations in 2004, although we have no evidence to support this. End Comment.)

MFA CONSIDERS ILSA SANCTIONS

6. (SBU) Badalian raised the issue of the Iran-Libya Sanctions Act and American opposition to the pipeline. He emphasized that one hundred thousand Armenian expatriates currently live in Iran, and that it would be impossible for Armenia not to have relations with Iran. He noted that the

pipeline would actually be in the USG's interest, as it would promote stability in the region. He explained that the pipeline would be insurance against gas supplies being cut off by an unstable Georgia or by a fickle Russian government. He added that Iran already sells large quantities of gas to Turkey, an ally of the US; he hoped there would be no great protests from the USG if a fraction of that amount were sold to Armenia.

COMMENT: HAVEN'T GOT IT ALL FIGURED OUT JUST YET

17. (SBU) There are still a lot of problems with the plan proposed by GOAM. While at times it appears that the GOAM is unwilling to share its ultimate plan for the pipeline, we believe it is more likely that they just haven't figured out exactly how to go forward. According to technical data obtained from PA Consulting, the Yerevan Thermal Power Plant (YTPP) is unable to translate 1.5 billion cubic meters of gas into 171 megawatts of electricity due to its poor condition and the inability to transmit the 171 megawatts over its existing transmission system to Iran while meeting other user requirements. The GOAM plan to construct a new, more efficient gas fired plant at YTPP by 2009 could help solve this by producing the agreed kWh for Iran with 20 to 30 percent less gas, permitting the GOAM to use or sell that volume of gas for other purposes.

18. (SBU) From the GOAM perspective, the pipeline could be profitable if the new gas plant was constructed on time or if nuclear or hydro production was above average. From the Iranian perspective, if Armenia uses the gas for other purposes, Iran could receive cash payments as opposed to electricity. Iran also may believe that with this pipeline, they could have access to Armenian, Georgian and even Russian markets and reduce its isolation in the international community. Regardless of the uncertain economic benefits this gas pipeline would give to both countries, it is increasingly clear that this does not appear to preclude the political will for the pipeline or, ultimately, its realization.

ORDWAY